Supreme Court, U.S.
FILED
04 233 AUG 18 2004
OFFICE OF THE CLERK

No. 04-

IN THE

Supreme Court of the United States

NXIVM CORPORATION *et al.*,

Petitioners,

v.

ROSS INSTITUTE *et al.*,

Respondents.

On Petition for a Writ of Certiorari to the United States Court of Appeals for the Second Circuit

PETITION FOR A WRIT OF CERTIORARI

RICHARD H. WEINER
JUSTIN A. HELLER
NOLAN & HELLER, LLP
39 North Pearl Street
Albany, NY 12207
(518) 449-3300

CARTER G. PHILLIPS*
ERIC A. SHUMSKY
SIDLEY AUSTIN BROWN & WOOD LLP
1501 K Street, N.W.
Washington, D.C. 20005
(202) 736-8000

Counsel for Petitioners

* Counsel of Record

August 18, 2004

WILSON-EPES PRINTING CO., INC. – (202) 789-0096 – WASHINGTON, D. C. 20001

QUESTIONS PRESENTED FOR REVIEW

1. Whether the Second Circuit erred when it held—in acknowledged conflict with decisions of other circuits—that the fair use defense to copyright infringement is available even to a defendant who used an unauthorized copy of the plaintiff's copyrighted material.

2. Whether the Second Circuit erred when it held, in direct conflict with this Court's decision in *Harper & Row Publishers, Inc.* v. *Nation Enterprises*, 471 U.S. 539 (1985), that an otherwise infringing use of copyrighted materials is presumptively fair, so long as it can be labeled "criticism."

PARTIES TO THE PROCEEDINGS

In addition to the parties listed in the caption, the following was Plaintiff-Appellant below, and is a Petitioner in this case:

First Principles, Inc.;

the following were Defendants-Appellees below, and are Respondents in this case:

Rick Ross
John Hochman
Stephanie Franco;

and the following were Consolidated Defendants-Appellees below, and are Respondents in this case:

Paul Martin
Wellspring Retreat, Inc.

RULE 29.6 STATEMENT

Applicants NXIVM Corporation and First Principles, Inc. have no parent corporations, and no publicly held company owns 10% or more of their stock.

TABLE OF CONTENTS

	Page
QUESTIONS PRESENTED FOR REVIEW	i
PARTIES TO THE PROCEEDINGS	ii
RULE 29.6 STATEMENT	ii
TABLE OF AUTHORITIES	v
JUDGMENT FOR WHICH REVIEW IS SOUGHT	1
JURISDICTION	1
STATUTES OR OTHER PROVISIONS INVOLVED	1
STATEMENT	1
A. Factual Background	3
B. Procedural Background	5
REASONS FOR GRANTING THE WRIT	7
I. THIS COURT SHOULD GRANT CERTIORARI TO RESOLVE A DECISIONAL CONFLICT OVER WHETHER UNAUTHORIZED COPYING PRECLUDES THE FAIR USE DEFENSE	8
A. Certiorari Is Warranted Because Of A Square Conflict Among the Circuit Courts	8
B. Certiorari Is Warranted Because Of Ambiguity In This Court's Decisions That Only This Court Can Clarify	13
II. THE DECISION BELOW SQUARELY CONFLICTS WITH THIS COURT'S HOLDINGS CONCERNING THE PROPER INTERPRETATION OF THE PREAMBLE TO 17 U.S.C. § 107	16

TABLE OF CONTENTS—continued

Page

CONCLUSION..... 18

TABLE OF AUTHORITIES

CASES Page

Arica Inst., Inc. v. *Palmer*, 970 F.2d 1067 (2d Cir. 1992) 17
Atari Games Corp. v. *Nintendo of Am. Inc.*, 975 F.2d 832 (Fed. Cir. 1992) 6, 12
Campbell v. *Acuff-Rose Music, Inc.*, 510 U.S. 569 (1994) 8, 10, 14, 15, 16
Fisher v. *Dees*, 794 F.2d 432 (9th Cir. 1986) 9, 12
Harper & Row Publishers, Inc. v. *Nation Enters.*, 471 U.S. 539 (1985) ..... *passim*
Hofheinz v. *AMC Prods, Inc.*, 147 F. Supp. 2d 127 (E.D.N.Y. 2001) 17
Los Angeles News Serv. v. *KCAL-TV Channel 9*, 108 F.3d 1119 (9th Cir. 1997) 12
Marcus v. *Rowley*, 695 F.2d 1171 (9th Cir. 1983) 12
Religious Tech. Ctr. v. *Netcom On-Line Communication Servs., Inc.*, 923 F. Supp. 1231 (N.D. Cal. 1995) 13
Robinson v. *Random House, Inc.*, 877 F. Supp. 830 (S.D.N.Y. 1995) 17
Sega Enters. Ltd. v. *MAPHIA*, 857 F. Supp. 679 (N.D. Cal. 1994) 13
Sony Corp. of Am. v. *Universal City Studios, Inc.*, 464 U.S. 417 (1984) 9
State Oil Co. v. *Khan*, 522 U.S. 3 (1997) 15
Sundeman v. *Seajay Soc'y, Inc.*, 142 F.3d 194 (4th Cir. 1998) 17
Time Inc. v. *Bernard Geis Assocs.*, 293 F. Supp. 130 (S.D.N.Y. 1968) 10
Wright v. *Warner Books, Inc.*, 953 F.2d 731 (2d Cir. 1991) 17

CONSTITUTION AND STATUTES

U.S. Const. art. I, § 8, cl. 8 8

TABLE OF AUTHORITIES—continued

Page

Act of May 31, 1790, ch. 15, 1 Stat. 124 8
15 U.S.C. § 1125 5
17 U.S.C. § 106 8
17 U.S.C. § 107 ..... 2, 6, 9, 16

LEGISLATIVE HISTORY

S. Rep. No. 102-141 (1991) 13
H.R. Rep. No. 94-1476 (1976), *reprinted in* 1976 U.S.C.C.A.N. 5659 9

FOREIGN CASE

Cary v. *Kearsley*, 170 Eng. Rep. 679 (K.B. 1803) 10

SCHOLARLY AUTHORITIES

4 Melville B. Nimmer & David Nimmer, *Nimmer on Copyright* (2004) 10, 15
William F. Patry, *The Fair Use Privilege in Copyright Law* (2d ed. 1995) 10, 16

OTHER AUTHORITIES

Black's Law Dictionary (8th ed. 2004) 10
Webster's Third New International Dictionary (1993) 14
Administrative Office of U.S. Courts, Federal Judicial Caseload Statistics (Mar. 31, 2003), *available at* http://www.uscourts.gov/caseload2003/tables/B07Mar03.pdf 13
NXIVM, Executive Success Programs, *at* http://www.nxivm.com/esp_1024.php (last visited Aug. 12, 2004) 3

PETITION FOR A WRIT OF CERTIORARI

Petitioners NXIVM Corporation and First Principles, Inc. (collectively, "NXIVM," unless otherwise noted) respectfully petition for a writ of certiorari to review the judgment of the United States Court of Appeals for the Second Circuit in this case.

JUDGMENT FOR WHICH REVIEW IS SOUGHT

The decision of the court of appeals is reported at 364 F.3d 471, and is reproduced in the Appendix to this Petition ("Pet. App.") at 1a-25a. The order of the United States District Court for the Northern District of New York is not officially reported. It can be found at 2003 WL 22298756 (N.D.N.Y. Sep. 9, 2003), and is reproduced at Pet. App. 26a-27a. That order incorporates by reference the district court's September 8, 2003 oral ruling, the transcript of which is reproduced at Pet. App. 28a-36a.

JURISDICTION

The decision of the court of appeals was entered on April 20, 2004. Pet. App. 1a. This Court has jurisdiction pursuant to 28 U.S.C. § 1254(1). On July 12, 2004, Justice Ginsburg extended the time for filing a petition in this case to and including August 18, 2004.

STATUTES OR OTHER PROVISIONS INVOLVED

Relevant portions of the United States Constitution and the Copyright Act of 1976 are reproduced at Pet. App. 37a-38a.

STATEMENT

In *Harper & Row Publishers, Inc.* v. *Nation Enterprises*, this Court considered a recurring situation that is strikingly

similar to the one that presents itself here—a copyright infringer who obtained an unauthorized copy of copyrighted and confidential materials, but who sought to defend its conduct as "fair use." See generally 471 U.S. 539 (1985). Under such circumstances, this Court held the fair use defense unavailable, reasoning that an alleged infringer who acts in bad faith cannot avail itself of that defense: "'[f]air use presupposes "good faith" and "fair dealing."'" *Id.* at 562-63.

Contrary to *Harper & Row*, the Second Circuit has now ruled that not only is bad faith non-dispositive, but also that it "contributes little to fair use analysis." Pet. App. 10a n.2. It matters seemingly not at all that a defendant has purloined a manuscript, or hacked into a computer or, as here, obtained proprietary materials in violation of a confidentiality agreement—the use of such materials may nonetheless, counterintuitively, be "fair."

This error is made all the worse by a second and related flaw in the court's analysis. The court below concluded, in further conflict with *Harper & Row*, that the illustrative categories of publications identified in the preamble to 17 U.S.C. § 107 (including, pertinent here, "criticism") carry presumptions of validity. In combination with the first error noted above, this means that ill-gotten copyrighted materials may be republished with impunity, and protected as fair use, simply if they can be shoehorned into some category of supposedly favored speech.

These rulings implicate important, recurring issues regarding the proper role of the fair use doctrine in copyright law. This is an era in which digital transmission of information has become the norm, in which piracy has become common, and in which pirated materials can be disseminated to the world with the click of a mouse. As such, it is almost child's play to obtain confidential materials, and when done with malicious intent, can be profoundly harmful to the copyright holder. Accordingly, it is critically important for this Court to clarify the relationship between bad faith,

fair use, and copyright infringement. Clarification is particularly warranted, given the conflict between the ruling below and prior decisions of the Ninth and Federal Circuits over the proper interpretation of *Harper & Row*.

A. Factual Background

NXIVM operates business training seminars throughout the United States. Its program, known as "Executive Success," teaches business professionals to develop analytical tools and logical approaches to problem-solving. As NXIVM describes its seminars,

> Executive Success Programs, Inc. develops and imparts programs that provide the philosophical and practical foundation necessary to acquire and build the skills for success.
>
> Founded in 1998 by Keith Raniere and Nancy Salzman, Executive Success Programs focuses on creating consistency in all areas, helping individuals develop the practical, emotional, and intellectual skills they need to reach their maximum potential.

NXIVM, Executive Success Programs, *at* http://www.nxivm.com/esp_1024.php (last visited Aug. 12, 2004).

At the heart of the Executive Success training programs is a proprietary methodology (designed by Petitioner First Principles, Inc. and leased to NXIVM), entitled Rational Inquiry, which analyzes the manner in which the mind processes data. This methodology is embodied in the written copyrighted materials that are at the center of this case—materials that are unavailable to the general public; that contain numerous copyright notices; and that are protected by nondisclosure agreements signed by all participants in NXIVM's training programs. Pet. App. 2a-3a.

In 2001, Respondent Stephanie Franco attended Executive Success programs operated by NXIVM. And, as a student, she was provided a copy of NXIVM's copyrighted,

confidential materials. A-858-60.[1] Prior to attending those classes, Franco twice signed a Student Enrollment Application that specifically prohibited her from "cop[ying], duplicat[ing], transmitt[ing], [teaching] or otherwise us[ing]" the program's "materials, methods and information" without "express written permission." A-31, -94, -784. Likewise, the course materials that Franco received highlighted the confidentiality of Executive Success Programs. A-394, -573. At no point did anyone authorize Franco to disclose NXIVM's confidential materials. Nonetheless, Franco's copy of NXIVM's proprietary copyrighted materials was transmitted to Respondent Rick Ross. A-29, -42, -633-34.[2]

Ross is, in his own words, "a consultant and intervention specialist regarding controversial and/or potentially unsafe groups, some of which have been called 'cults,'" A-631—in short, Ross is a would-be cult deprogrammer, A-95. Ross was hired by the parents of Michael Sutton (an Executive Success student, and Stephanie Franco's half-brother) to conduct an "intervention" for Sutton. A-631-33. In the course of the "intervention," Ross obtained from Franco her copy of NXIVM's confidential, copyrighted materials. A-29, -42, -633-34; Pet. App. 3a. It is clear for present purposes that "defendants' copy of the NXIVM manuscript was unauthorized." Pet. App. 9a.

---

[1] "A-" citations are to the Joint Appendix submitted in the Second Circuit.

[2] There is some discrepancy as to whether Franco herself gave the materials to Ross, *see* A-29, -42, -634, -792, or if they were transmitted from her to her half-brother Jeffrey Sutton to Ross, *see* A-92, -95-96, -633, but this inconsistency is immaterial—either way, the materials were confidential and nondisclosable; either way, Ross received an unauthorized copy of the materials; and either way, Ross knew that the materials were confidential. Accordingly, the Second Circuit assumed that the materials provided to Ross were unauthorized, Pet. App. 9a, and concluded that defendants knew "or at least very likely knew" as much, *id.* at 6a.

Ross, in turn, commissioned reports on NXIVM by Respondents John Hochman and Paul Martin, "self-styled experts on groups such as NXIVM." Pet. App. 3a; A-54-57, -77-85. "The[se] reports quote sections of the manual in support of their analyses and criticisms and were ultimately made available to the public through Ross's websites." Pet. App. 3a. Martin's report, in particular, included extensive verbatim quotations from NXIVM's proprietary, confidential materials. A-77-85. And both Hochman and Martin knew that materials related to Executive Success Programs were meant to be kept confidential. A-54-55, -81, -640, -647, -650. These proceedings ensued.

B. Procedural Background

NXIVM brought two lawsuits to seek redress for the misappropriation and infringement of its copyrighted materials. The first suit, filed on August 6, 2003, against The Ross Institute, Ross, Hochman and Franco, sought relief for conversion, breach of contract, misappropriation, conspiracy and product disparagement under the Lanham Act, 15 U.S.C. § 1125. A-15-23. The second suit was filed on August 22, 2003, against The Ross Institute, Ross, Martin, Wellspring Retreat, Inc. (Martin's employer during the relevant period), and Franco. In it, NXIVM sought damages and an injunction for copyright infringement and interference with contractual relations. A-727-41.

Soon thereafter, the district consolidated the two cases, and denied nearly all[3] of the preliminary injunctive relief sought by NXIVM. Pet. App. 26a-27a. The court concluded that the use of NXIVM's proprietary materials by defendants was a "fair use," and accordingly that there was no copyright infringement. *Id.* at 29a-32a. It purported to apply the four-

[3] The court, relying on the confidentiality clause in Franco's course application, did enjoin Franco "from transmitting the materials to anyone other than her attorneys and persons retained by them in connection with these suits." Pet. App. 34a-35a.

factor fair use test set forth in 17 U.S.C. § 107, although it quite clearly erred in its application of that test. Of particular importance here, in the course of considering the first fair use factor—"the purpose and character of the use"—the district court altogether failed to consider "'the propriety of the defendant[s'] conduct,'" as this Court required in *Harper & Row Publishers, Inc.* v. *Nation Enterprises*, 471 U.S. 539, 562-63 (1985). And, nowhere did it acknowledge that "'[f]air use presupposes "good faith" and "fair dealing."'" *Id.*

On appeal, the Second Circuit affirmed the denial of NXIVM's motion for a preliminary injunction. Pet. App. 17a. The court recognized that "[a]t the core of th[e] appeal is the proper weighing, in a copyright infringement suit, of the first of the four statutory fair use factors after *Harper & Row*." *Id.* at 6a. Yet, like the district court, it gave little weight to the fact that, as it assumed, "defendants' copy of the NXIVM manuscript was unauthorized." *Id.* at 9a. Rather, it concluded, "the bad faith of a defendant is not dispositive of a fair use defense," *id.* at 10a; indeed, it held, "the good or bad faith of a defendant ... generally contributes little to fair use analysis," *id.* at 10a n.2; *accord id.* ("a finding of bad faith is not to be weighed very heavily within the first fair use factor and cannot be made central to fair use analysis"). And in reaching this provocative holding, the court below acknowledged that its decision was directly contrary to that of the Federal Circuit in *Atari Games Corp.* v. *Nintendo of America Inc.*, 975 F.2d 832, 843 (Fed. Cir. 1992). Pet. App. 9a.

It compounded this error by concluding, in further conflict with *Harper & Row*, that the categories of publication listed in the preamble to § 107 carry a presumption of validity. Whereas *Harper & Row* held that that preamble "was not intended ... to single out any particular use as presumptively a 'fair' use," 471 U.S. at 561, the court concluded that NXIVM's materials fell within one of the categories enumerated in the preamble (namely, "criticism"), and

therefore that there was a "'strong presumption'" favoring fair use, Pet. App. 7a. These interrelated errors led the court of appeals to affirm the decision of the district court, and provide ample reason for this Court to grant review.

REASONS FOR GRANTING THE WRIT

This case presents two important questions concerning the scope and purpose of the fair use defense to copyright infringement. First, it poses a square and acknowledged conflict among the circuit courts over whether a defendant accused of copyright infringement may seek refuge in the fair use defense, despite having acquired unauthorized copies of the copyrighted materials. The court below accepted that the allegedly infringing works authored by defendants Martin and Hochman were based upon improperly obtained copies of NXIVM's confidential materials, but nonetheless concluded that this use of NXIVM's materials was likely fair. This conclusion is inconsistent with this Court's precedent; disregards a long history of treating good faith as a prerequisite to the fair use defense; and conflicts with decision of the Ninth and Federal Circuits. Indeed, in the course of reaching this conclusion, the Second Circuit forthrightly recognized that the same case would have been decided differently had it been heard by the Federal Circuit.

Review of this same question is further warranted because the conflict in the circuits is largely attributable to ambiguity in this Court's decisions—which ambiguity, of course, can only be cured by this Court.

Second, this Court should grant certiorari to correct the Second Circuit's erroneous conclusion that an infringer's use of copyrighted materials for purposes of "criticism" carries some presumption of fairness. This reasoning, which is only the latest in a line of similarly erroneous cases in the Second Circuit—and which has since been adopted by the Fourth

Circuit—is foreclosed by decisions of this Court holding that such presumptions are inappropriate.

I. THIS COURT SHOULD GRANT CERTIORARI TO RESOLVE A DECISIONAL CONFLICT OVER WHETHER UNAUTHORIZED COPYING PRECLUDES THE FAIR USE DEFENSE.

A. Certiorari Is Warranted Because Of A Square Conflict Among the Circuit Courts.

The Copyright Clause of the United States Constitution affords Congress the power "[t]o promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries." U.S. Const. art. I, § 8, cl. 8. Acting pursuant to that power, Congress has, since the earliest days of the Republic, protected the exclusive right of a copyright holder to publish and reproduce his works during the term of a copyright. See Act of May 31, 1790, ch. 15, § 1, 1 Stat. 124, 124 (1790 Copyright Act). This centuries-old copyright protection is now embodied in 17 U.S.C. § 106.

"The copyright owner's rights, however, are subject to certain statutory exceptions. [17 U.S.C.] §§ 107-118. Among these is § 107, which codifies the traditional privilege of other authors to make 'fair use' of an earlier writer's work." *Harper & Row*, 471 U.S. at 547. The fair use privilege, as *Harper & Row* indicates, arose as a common-law doctrine, and "was traditionally defined as 'a privilege in others than the owner of a copyright to use the copyrighted material in a reasonable manner without his consent.'" *Id.* at 549 (quoting Horace G. Ball, *Law of Copyright and Literary Property* 260 (1944)); see also *Campbell* v. *Acuff-Rose Music, Inc.*, 510 U.S. 569, 576 (1994) (citing *Folsom* v. *Marsh*, 9 F. Cas. 342 (C.C.D. Mass. 1841) (No. 4,901)).

Fair use is now embodied in § 107 as a nonexclusive multifactor test[4] that is meant simply to restate the longstanding common-law principles. See *Harper & Row*, 471 U.S. at 549; H.R. Rep. No. 94-1476, at 66 (1976), *reprinted in* 1976 U.S.C.C.A.N. 5659, 5680 ("Section 107 is intended to restate the present judicial doctrine of fair use, not to change, narrow, or enlarge it in any way.").

At common law and since, fair use has operated as "'an equitable rule of reason.'" *Sony Corp. of Am.* v. *Universal City Studios, Inc.*, 464 U.S. 417, 448 (1984) (quoting H.R. Rep. No. 94-1476, at 65, *reprinted in* 1976 U.S.C.C.A.N. at 5679); see *Fisher* v. *Dees*, 794 F.2d 432, 435 (9th Cir. 1986) ("fair-use doctrine" is "an equitable defense"). This is unsurprising—the very name of the doctrine (*fair* use) reveals that concerns of equity are paramount. And, like many other equitable doctrines, "'Fair use presupposes "good faith" and "fair dealing."'" *Harper & Row*, 471 U.S. at 562.

---

[4] Section 107 provides:

> Notwithstanding the provisions of sections 106 and 106A, the fair use of a copyrighted work, including such use by reproduction in copies or phonorecords or by any other means specified by that section, for purposes such as criticism, comment, news reporting, teaching (including multiple copies for classroom use), scholarship, or research, is not an infringement of copyright. In determining whether the use made of a work in any particular case is a fair use the factors to be considered shall include—
>
> (1) the purpose and character of the use, including whether such use is of a commercial nature or is for nonprofit educational purposes;
>
> (2) the nature of the copyrighted work;
>
> (3) the amount and substantiality of the portion used in relation to the copyrighted work as a whole; and
>
> (4) the effect of the use upon the potential market for or value of the copyrighted work.
>
> The fact that a work is unpublished shall not itself bar a finding of fair use if such finding is made upon consideration of all the above factors.

17 U.S.C. § 107.

The treatment of good faith as a precondition to the application of the fair use doctrine has a long historical pedigree. In *Cary* v. *Kearsley* (an 1803 English case that has been identified as a source of the fair use doctrine, and was cited with approval in *Campbell*, see 510 U.S. at 575-76), it was held that *animus furandi*—the intent to steal, see *Black's Law Dictionary* 97 (8th ed. 2004)—precludes a determination that the copyrighted material was "used fairly." 170 Eng. Rep. 679, 680 (K.B. 1803).

Thus, "the court is ... required to determine whether the use was motivated by *animus furandi*.... [The] presence [of *animus furandi*] operates to deprive the appropriator of the privilege of fair use." William F. Patry, *The Fair Use Privilege in Copyright Law* 1 . (2d ed. 1995) (discussing *Cary* and citing additional cases). Simply put, "the requirement that a would-be fair user act in good faith was firmly articulated in early English and American case law." *Id.* at 130. Later cases have formulated this venerable principle in the same fashion repeated in *Harper & Row*: "'Fair use presupposes "good faith" and "fair dealing."'" See, *e.g.*, *Time Inc.* v. *Bernard Geis Assocs.*, 293 F. Supp. 130, 146 (S.D.N.Y. 1968), *quoted with approval in Harper & Row*, 471 U.S. at 562; see also 4 Melville B. Nimmer & David Nimmer, *Nimmer on Copyright* § 13.05[A][1][d], at 13-170.2 (2004) ("knowing use of a purloined manuscript militates against a fair use defense").

The good faith requirement for fair use has, however, been applied in conflicting fashion, as the decision below makes plain. Indeed, it is the subject of a square and acknowledged conflict in the circuits—including, of particular importance where copyright is concerned, the Second, Ninth and Federal Circuits. (Moreover, as noted below, this inconsistency in the circuits stems from arguably inconsistent statements in opinions of this Court, which only this Court can clarify. See *infra* at 13-16.)

In this case, the Second Circuit declined to accord dispositive effect to the fact that Ross obtained, and Martin and Hochman quoted and relied upon, unauthorized copies of NXIVM's materials. As a factual matter, there is no question that bad faith was at issue, as the Second Circuit properly recognized. Defendants obtained proprietary materials that were distributed to them in clear violation of a written confidentiality agreement. As the Second Circuit put it, "defendants must have known (or at least very likely knew) that the unpublished manuscript from which quotations were taken and which was disseminated on the internet was acquired in an unauthorized fashion." Pet. App. 6a; *accord id.* at 9a ("we assume defendants' copy of the NXIVM manuscript was unauthorized").

Nonetheless, the court held that defendants' use of unauthorized documents did not preclude application of the fair use doctrine, and rejected such a reading of *Harper & Row*. Pet. App. 9a. Despite *Harper & Row*'s plain ruling that "fair use *presupposes* good faith," 471 U.S. at 562 (emphasis added; quotation marks omitted), the court below concluded "that 'nothing in *Harper & Row* indicates that the defendants' bad faith is itself conclusive of the fair use question, or even of the first [fair use] factor,'" Pet. App. 10a (brackets in original omitted); see also *id.* at 16a ("Even a finding of bad faith by defendants would not automatically preclude finding that their use was fair use."). To be sure, the court purported to acknowledge that *Harper & Row* "directs courts to consider a defendant's bad faith in applying the first statutory factor." *Id.* at 8a. But this was mere lip service, for in the end, the court concluded that a defendant's bad faith "generally contributes little to fair use analysis," and "is not to be weighed very heavily within the first fair use factor and cannot be made central to fair use analysis." *Id.* at 10a n.2.

This conclusion, as the Second Circuit recognized, Pet. App. 9a, squarely conflicts with an earlier decision of the Federal Circuit. In *Atari Games Corp.* v. *Nintendo of*

America Inc., the Federal Circuit considered Atari's invocation of the fair use defense, in a case arising out of Atari's reverse engineering of the Nintendo game system. 975 F.2d 832 (Fed. Cir. 1992). The court held, directly contrary to the Second Circuit in the decision below, that the fair use defense was unavailable because Atari had obtained unauthorized copies of Nintendo's source code: "To invoke the fair use exception, an individual must possess an authorized copy ...." *Id.* at 843; *accord id.* ("Because Atari was not in authorized possession..., any copying or derivative copying ... does not qualify as a fair use."); *id.* at 842 ("The Copyright Act permits an individual *in rightful possession* of a copy of a work to undertake necessary efforts to understand the work's ideas, processes, and methods of operation." (emphasis added)).

The Federal Circuit's *Atari* decision, had the Second Circuit followed it here, would have required a decision in favor of NXIVM in this case: "[T]he rule enunciated in *Atari* would foreclose the fair use defense altogether based upon defendants' bad faith." Pet. App. 9a. The split between these two circuits could not be starker.

The Ninth Circuit has adopted yet a third, middle-ground, position. Whereas the Federal Circuit grants dispositive effect to a defendant's use of unauthorized copyrighted materials, and the decision below holds that the use of unauthorized materials "contributes little to fair use analysis," the Ninth Circuit treats bad faith as a factor to be seriously considered in applying the fair use analysis. In *Marcus* v. *Rowley*, for instance, that court held that "[b]ecause fair use presupposes that the defendant has acted fairly and in good faith, the propriety of the defendant's conduct should also be weighed in analyzing the purpose and character of the use." 695 F.2d 1171, 1175-76 (9th Cir. 1983); see also *Los Angeles News Serv.* v. *KCAL-TV Channel 9*, 108 F.3d 1119, 1122 (9th Cir. 1997); *Fisher*, 794 F.2d at 436-37.

Review is warranted all the more because this conflict concerns decisions of the Second and Ninth Circuits on an issue of copyright law. Those two courts have a disproportionate influence on intellectual property by simple dint of the fact that intellectual property-holders are disproportionately located in those two states. Cf. S. Rep. No. 102-141, at 3 (1991) ("The rulings of the second circuit in this area of law are particularly influential because this circuit has jurisdiction over the core of the Nation's book and magazine publishing industry."). In 2003, for instance, the Second and Ninth Circuits heard fully 40% of the intellectual property cases in the geographic courts of appeals. See Administrative Office of U.S. Courts, Federal Judicial Caseload Statistics, tbl.B-7, at 31 (Mar. 31, 2003), *available at* http://www.uscourts.gov/caseload2003/tables/B07Mar03.pdf. And the participation of the Federal Circuit, which is the court of appeals with specialized expertise in intellectual property, in this circuit split makes the case for review particularly compelling.[5]

B. Certiorari Is Warranted Because Of Ambiguity In This Court's Decisions That Only This Court Can Clarify.

Review is further necessary because the conflict in the lower courts results in large measure from perceived ambiguity in this Court's fair use analyses—which, of course, only this Court can rectify.

As noted above, this Court in *Harper & Row* held, in strikingly clear fashion, that good faith is required for the fair

---

[5] The lack of clarity in the legal standards that warrants review by this Court is further demonstrated by the conflict of authority within the Northern District of California, the home of Silicon Valley. Whereas one court has relied on *Atari* to conclude that fair use requires good faith, *see Sega Enters. Ltd.* v. *MAPHIA*, 857 F. Supp. 679, 683, 687 (N.D. Cal. 1994), another court within that same district has rejected *Sega* and concluded that "bad faith ... cannot be considered dispositive," *Religious Tech. Ctr.* v. *Netcom On-Line Communication Servs., Inc.*, 923 F. Supp. 1231, 1244 & n.14 (N.D. Cal. 1995).

use defense to be available. 471 U.S. at 562. The language employed by the Court in that case—that fair use "presupposes" good faith—clearly indicates that good faith is a prerequisite to fair use. See *Webster's Third New International Dictionary* 1796 (1993) (defining "presuppose" as "to require as a necessary antecedent condition").

In a subsequent decision, however, the Court cast doubt on the clear ruling in *Harper & Row*, but only, if at all, implicitly. In *Campbell*, the Court again considered the fair use defense, and at no point did it purport to overrule *Harper & Row*, or to disavow the clear statement that fair use presupposes good faith. But it spoke of the relevance of good faith in the subjunctive mood, as though that consideration is not in fact important: "*Even if good faith were central to fair use*, [defendants'] actions do not necessarily suggest that they believed their version was not fair use ...." 510 U.S. at 585 n.18 (emphasis added). This ambiguity was heightened still further with a conditional statement about fair use, see *id.* ("regardless of the weight one *might place* on the alleged infringer's state of mind" (emphasis added)), and with a string citation that seemingly placed *Harper & Row* on equal footing with a law review article by a Second Circuit judge that argued good faith is irrelevant, and which is now the law of the Second Circuit.[6]

The uncertainty engendered by these opinions is ably demonstrated by the opinions below, in which the court went through contortions in an effort to pay fealty to, if not actually follow, both *Harper & Row* and *Campbell*. On the one hand, the majority did claim to "follow" *Harper & Row* (notwithstanding its disregard of that opinion's statement that

---

[6] *See Campbell*, 510 U.S. at 585 n.18 ("[R]egardless of the weight one might place on the alleged infringer's state of mind, compare *Harper & Row*, ... (fair use presupposes good faith and fair dealing) ..., with *Folsom v. Marsh*, ... (good faith does not bar a finding of infringement); Leval[, *Toward a Fair Use Standard*, 103 Harv. L. Rev. 1105,] 1126-1127 [(1990)] (good faith irrelevant to fair use analysis) ....).

fair use "presupposes" good faith). Pet. App. 10a n.2. At the same time, it purported to follow *Campbell* for the mutually exclusive proposition that "the good or bad faith of a defendant ... generally contributes little to fair use analysis." *Id.* In the end, it was left to "await from the Supreme Court" further guidance on the issue. *Id.* at 11a n.2. That guidance should be forthcoming in this case.

Judge Jacobs filed a concurring opinion in which he, too, perceived inconsistency in this Court's precedents. On the one hand, he first treated *Campbell* as having contravened *Harper & Row*: "[E]ven if *Harper & Row* did state in passing that fair use presupposes good faith, *Campbell* reopened the question." Pet. App. 21a. Of course, *Campbell* nowhere purported to overrule *Harper & Row*, and mentioned it only in passing. 510 U.S. at 585 n.18. Accordingly, Judge Jacobs could not treat *Campbell* as implicitly having overruled *Harper & Row*, see *State Oil Co.* v. *Khan*, 522 U.S. 3, 20 (1997) ("it is [the Supreme Court's] prerogative alone to overrule one of its precedents"), despite his strong suggestion that it had done so. Thus, later in his concurring opinion, Judge Jacobs acknowledged that "the Supreme Court has never expressly disavowed" *Harper & Row*. Pet. App. 24a. In the end, he simply insisted that "*Campbell* ... invites and provokes discussion of the issue as an open question." *Id.* Were the choice his, he would accord good faith *no* role in the consideration of fair use. *Id.* at 19a.

Four positions concerning bad faith have now been staked out: Bad faith is either dispositive; significant, all but irrelevant; or irrelevant. It is no wonder that scholars have recognized that "the obscure doctrine of fair use [is] 'the most troublesome in the whole law of copyright.'" 4 Nimmer, *supra*, § 13.05, at 13-150. That general observation is nowhere more clear than here, where ambiguous and arguably contradictory statements in opinions of this Court have led to a square conflict of authority among the three circuits that bear the primary burden of adjudicating intellectual property

disputes. Only this Court can clear up this confusion, and it should do so here.

II. THE DECISION BELOW SQUARELY CONFLICTS WITH THIS COURT'S HOLDINGS CONCERNING THE PROPER INTERPRETATION OF THE PREAMBLE TO 17 U.S.C. § 107.

Review is further warranted because the decision below erred in its interpretation of the preamble to 17 U.S.C. § 107. Contrary to the clear holding of this Court in *Harper & Row*, it erroneously treated the categories of publication in that preamble as presumptively fair uses.

Section 107, as noted above, was meant to embody and preserve the existing equitable common-law approach to fair use. To that end, it listed four nonexclusive factors to be considered when determining whether a use is fair. And it likewise identified, in its preamble, certain types of uses that may be fair—namely, "purposes such as criticism, comment, news reporting, teaching ..., scholarship, or research." 17 U.S.C. § 107.

However, the Court in *Harper & Row* made it absolutely clear that the purposes listed in the preamble to § 107 are not presumptively fair: "This listing was not intended ... to single out any particular use as presumptively a 'fair' use." 471 U.S. at 561; *Campbell*, 510 U.S. at 584 (same); see also *Harper & Row*, 471 U.S. at 561 ("The fact that an article arguably is 'news' and therefore a productive use is simply one factor in a fair use analysis."). Indeed, Congress considered and rejected efforts to institute such presumptions: "The drafters resisted pressures from special interest groups to create presumptive categories of fair use, but structured the provision as an affirmative defense requiring a case-by-case analysis." *Harper & Row*, 471 U.S. at 561 (citing H.R. Rep. No. 90-83, at 37 (1967)); see *Campbell*, 510 U.S. at 584 (citing H.R. Rep. No. 94-1476, at 66, *reprinted in* 1976 U.S.C.C.A.N. at 5680); Patry, *supra*, at 418 ("Uses fitting

within one of the six categories [in the preamble] are not, however, presumptively fair.").

The decision below is irreconcilable with these decisions. After having concluded that the purpose of the publications was "criticism" (and therefore encompassed within the preamble to § 107), the court below applied precisely the sort of presumption that *Harper & Row* and *Campbell* forbid. "'[T]here is a strong presumption that factor one favors the defendant if the allegedly infringing work fits the description of uses described in § 107.'" Pet. App. 7a. If presumptions are foreclosed, "strong presumption[s]" certainly must be.

Nor is this an isolated mistake; on the contrary, as the court below itself recognized, Second Circuit authority required this result. Pet. App. 7a; see *Wright* v. *Warner Books, Inc.*, 953 F.2d 731, 736 (2d Cir. 1991). This same mistake has been promulgated both by and within the Second Circuit. See *Arica Inst., Inc.* v. *Palmer*, 970 F.2d 1067, 1077 (2d Cir. 1992); *Robinson* v. *Random House, Inc.*, 877 F. Supp. 830, 840 (S.D.N.Y. 1995) ("if a use fits within one of the favored uses, the use is considered presumptively fair"); *Hofheinz* v. *AMC Prods, Inc.*, 147 F. Supp. 2d 127, 138 (E.D.N.Y. 2001). And, significant here, the Fourth Circuit has now relied upon and repeated the Second Circuit's error. See *Sundeman* v. *Seajay Soc'y, Inc.*, 142 F.3d 194, 203 (4th Cir. 1998) (citing *Wright*). This Court should grant review to correct this longstanding error in the jurisprudence of the Second Circuit, which conflicts directly with decisions of this Court.

CONCLUSION

For the foregoing reasons, the petition for a writ of certiorari should be granted.

Respectfully submitted,

RICHARD H. WEINER
JUSTIN A. HELLER
NOLAN & HELLER, LLP
39 North Pearl Street
Albany, NY 12207
(518) 449-3300

CARTER G. PHILLIPS*
ERIC A. SHUMSKY
SIDLEY AUSTIN BROWN & WOOD LLP
1501 K Street, N.W.
Washington, D.C. 20005
(202) 736-8000

Counsel for Petitioners

* Counsel of Record

August 18, 2004